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Chairman: Mr. Asadi ..... (Islamic Republic of Iran)

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The meeting was called to order at 10.10 a.m.

Panel discussion on the state of the world economy

1. **Mr. Kregel** (Johns Hopkins University, Italy) said that there was an increasingly substantial risk of the possibility of a global recession that could resemble the deterioration of the 1930s. The previous year's meetings of the International Monetary Fund (IMF) and the World Bank in Hong Kong had predicted that the Asian financial crisis would have only a minimal impact on the performance of the economies involved and very little, if any, impact on the global economy. The meetings had stressed the positive benefits that developed economies might gain as a result of the crisis in terms of declining commodity prices and reduced interest rates.

2. It was now clear that those analyses had failed to take into account the increasing importance of regional trade in Asia. The breakdown of the financial system and of the stability of exchange rates in that region had brought to a halt the interregional aspects of trade and subsequently made it increasingly difficult for those countries to make the normal adjustments by increasing exports and decreasing imports. Where such adjustments had been made, the reduction in levels of output had produced an equivalent, in terms of losses in real income and losses in wealth, to that which had been suffered in the developed countries in the 1930s. That particular impact had a contagion effect, spreading the financial crisis in Asia to other developing countries.

3. A large number of countries depended on commodity export earnings for fiscal revenues. For instance, one of the basic causes of the recent financial difficulties in the Russian Federation had been the sharp decline in commodity prices. That country's balance of trade had gone from a surplus in 1997 to a deficit in 1998 – a reversal of about US$ 5 billion. Such a substantial reversal in foreign earnings made it extremely difficult for any country to sustain a stable exchange rate. That was one example of the direct impact of the Asian crisis. Many Latin American countries, including Venezuela and Mexico, which depended for fiscal revenues on commodity sales, had been similarly affected. Falling commodity prices had also had a negative impact on aggregate expenditures throughout the transition economies in central Europe and in Latin America.

4. The other aspect of the response to falling commodity prices had been that international investors had tended to increase their assessments of the riskiness of lending to developing countries and even to withdraw altogether from such countries. In attempts to stem capital outflows, most developing countries had substantially increased interest rates, which had had a perverse impact on the ability of their economies to stabilize. Indeed, a close look at the structure of the deficits in the majority of those countries showed that the primary deficit was very close to balanced. The largest proportion of the fiscal deficit was made up of interest payments on outstanding debt. When increases in interest rates were used in order to stem capital outflows, that meant that financing costs, the interest burden on outstanding debt and the fiscal deficit were being increased simultaneously. However, the resulting cutback in expenditures had a further negative impact on growth. At the same time, the increase in interest rates produced a damper on investment activity in the domestic private sector. Unfortunately, foreign lenders became increasingly sceptical of the ability of countries to repay such high interest rates. Therefore, the increase in interest rates simply acted as a signal of the increased riskiness of lending to those countries and in many cases had tended to backfire and to cause large outflows of capital.

5. The drop in commodity prices and shift in the terms of trade had created downward pressures on demand in the entire developing world that would lead to a decrease in real incomes and in demand for the exports of developed countries, which depended on increasing their exports in order to achieve growth. Both the European Union and Japan would therefore be adversely affected by the changes occurring in the developing world. It was unlikely that the United States Government could or would be willing to let its economy serve as the single engine of global growth.

6. **Mr. O'Connell** (Director, Centre for International Economy, Argentina) said that in 1997, Latin American countries had seemed to be on a very active growth path. Their gross domestic product (GDP) had been over 5 per cent, inflation had stood at a 50-year low and a larger proportion of the increased capital flows into the region had been made up of foreign direct investment. The economic environment had therefore been quite rosy. However, times had changed since the onset of the Asian crisis. The impact of that crisis on Latin America had differed according to the trading ties of individual countries. Countries such as Chile, Ecuador and Peru, which had very significant trade with South-East Asia, had been severely affected as a result of the decline in commodity prices. In early 1998, the situation had begun to look as though it would stabilize; however, after July and August 1998, it had become clear that it would not. Interest rates had shot up, the commodity prices of Latin American countries had declined sharply and foreign investment had dried up. Consequently, the whole area's balance of trade had deteriorated sharply and average current

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accounts were more than 4 per cent of GDP. Growth forecasts had been revised downward from between 3 and 4 per cent to 2 per cent. Indeed, favourable predictions at best put growth for 1999 at zero.

7. The continued downward revision meant that the world was becoming more aware of the seriousness of the crisis. Latin America considered the current crisis as a replay of a phenomenon with which they were all too familiar. They had a feeling of sympathy for that region because its crisis, like theirs, had gone unheeded for a very long time. Latin American countries in the 1980s had become capital exporters and had lost an entire decade. Indeed, more than a decade since then, the consequences of that crisis were still being felt. As a result of huge increases in interest rates, Latin American countries had found it increasingly difficult to service their foreign debt. The result was a cessation of lending, a similar situation to that of South-East Asia today.

8. Latin American countries had decided to opt for a new development model which consisted of privatization, State withdrawal from economic activity and the opening up of the economy. Those reforms had taken place in the early 1990s, when capital had started flowing again into Latin America. The capital flows had led to an overvaluation of exchange rates, an increase in foreign debt servicing, and very high growth coupled with current account deficits, which had made Latin American countries extremely vulnerable to any cessation in capital flows. The 1995 crisis in Mexico had been very different from the present situation; that country had recovered very quickly because of massive financial support from the United States of America.

9. Thus, one key lesson to be drawn from the Mexican crisis was that massive financial support was needed from the larger, advanced economies. In the case of the South-East Asian countries, Japan had to promote more active growth. The advanced countries also needed to reduce their interest rates, better manage demand and accept some payment and trade restrictions. Countries should also be allowed to petition the World Trade Organization (WTO) for balance-of-payments redress. Moreover, some trade restrictions and exchange controls might be needed to organize the debt situation. The IMF Compensatory Financing Facility window might have to be reorganized to include compensation for the cessation of lending and collapse in capital flows. In view of the moral hazards involved in such a situation, a change might perhaps be needed in the attitudes of IMF and private creditors. In that regard, mechanisms that allowed IMF to support countries without obliging such countries to comply immediately with debt servicing should be envisaged.

10. **Mr. Islam** (President, BRN Associates) said that 1999 would probably be the year in which the world economic situation would most closely resemble that of 1929. In his view, a global economic crisis and depression was imminent and would be triggered not by the current problems in Asia or the Russian Federation, but by a crisis in the United States economy that would spring from purely domestic sources. The export drag which the United States was experiencing as a result of the current Asian crisis was very small in comparison to the United States' GDP, which primarily reflected domestic consumption and investment. In the first half of 1998, consumption in the United States had grown at an average annual rate of 6 per cent, but real disposable income had increased by only 3.5 per cent. The gap between the two had been covered by a dramatic decline in personal savings, which had dropped to a historic low of only 0.5 per cent of total personal income. However, that pattern of overspending and increased borrowing was already changing, and consumption, which was the main engine of growth, would probably decline rapidly in the rest of 1998 and in 1999.

11. Investment in the United States had also boomed in the first half of 1998. However, a number of factors, including the decline in the profits of non-financial sectors since late 1997, the increased cost of capital, the creation of excess capacity, the poor outlook for future demand and production and negative export growth, were working to slow down investment. In addition, the negative psychological impact of the financial turmoil in the rest of the world had been accentuated by the "irrational exuberance" – in the words of the United States Federal Reserve Board Chairman – of the stock market in the first half of the year. The United States would probably follow the pattern described recently by Paul Volker in relation to Thailand's situation, in which success bred overconfidence, greed overcame prudence, unexpected developments at home or abroad raised doubts, fear became contagious and, if excesses were widespread enough, a financial crisis became an economic crisis.

12. A number of factors led him to believe that the United States economy would slow down and experience financial instability and market collapse, thereby leading to a global depression. The first factor was the United States economy's seven-year expansion; the longer a period of economic boom, the more excesses were created in the system. Secondly, owing to the globalized nature of the world's economies, any decline in the United States economy, capital markets or banking system would strongly affect the rest of the world and could result in a vicious circle in which economies reinforced each other's decline. Thirdly, the current situation represented the first occurrence of a

recession in a deflationary environment; an analysis of the economics of deflation would therefore be required. Lastly, the United States President's domestic political problems had resulted in a lack of political leadership by the main economic Power, which was also reminiscent of the situation in 1929.

13. **Mr. Verbeek** (Netherlands) said that Mr. Islam had made little reference to the potential causes of conflict in the United States economy. He wondered whether the processes described by Mr. Islam had been generated by the global situation, rather than representing autonomous processes within the United States. With respect to Mr. Kregel's comparison of the current situation to that of the 1930s, he said that some similarities in the general dynamics might be offset by changes in the relative weight of individual factors. For example, the importance of some commodities as a component of GDP had decreased, while the importance of services had increased.

14. **Mr. Wyatt** (European Community) said that it was important to avoid both complacency and excessive pessimism. In the 1920s and 1930s, the general trend had been towards trade restrictions, which had negatively affected the world economic situation. In contrast, the current open world trading system was being maintained even in the face of financial difficulties and would ultimately be useful for dealing with the current problems. With respect to financial markets in the United States, it should be borne in mind that the current level of stock prices was far from being excessively low; stock prices were even higher than they had been at the time the Chairman of the United States Federal Reserve Board had said that they revealed an "irrational exuberance". Moreover, there was a general awareness of the dangers and difficulties to be faced, and efforts were under way to find the right policy responses. For example, some countries had already begun to lower interest rates. With respect to East Asia, Japan was coming to grips with its difficulties, and small signs of recovery were apparent in countries such as Thailand, whose stock market had risen considerably in the past few days. He agreed with Mr. Kregel that the effects of changes in commodity prices were important, but pointed out that those effects were very complex; for example, many individuals in developing countries might stand to gain from falling commodity prices, while others in developed countries might stand to lose.

15. **Mr. Desai** (Under-Secretary-General for Economic and Social Affairs) said that delegations seemed to be questioning whether the world economy was really in a situation similar to the pre-1929 period, in view of three main factors: the greatly reduced importance of commodities, both for national income and in the dynamics between countries; the continuing acceptance of open trading regimes in most key markets; and the availability of an institutional structure to facilitate multilateral responses.

16. **Mr. Kregel** said that the fiscal budgets of many countries were crucially dependent on commodities. For example, the Russian Federation's economy, which had once depended most heavily on trade in manufactured goods, was currently based on primary commodities. The fall in commodity prices had changed that country's balance of payments from positive to negative. In addition, by reducing the taxable income of primary commodity exporters, from whom taxes were easiest to collect, it had reduced fiscal revenues. In response, the Central Bank of the Russian Federation had tried to stabilize exchange rates to attract capital inflows from abroad. As commodity prices had declined, its dependence on foreign capital flows had increased, creating a situation of extreme fragility. As foreign lenders had recognized that falling commodity prices were negatively affecting the country's ability to repay its loans, they had increased risk premiums on their loans to the Russian Federation. The resulting decline in inflows had put pressure on exchange rates, reduced reserves and culminated in a crisis. The Russian Federation was not the only country in which fiscal balances were largely determined by commodity prices. Mexico and Chile were in the same position with regard to petroleum and copper prices, respectively. The situation was even more acute in developing countries that had entered into loan agreements or embarked on domestic stabilization policies that required them to balance their fiscal budgets, since commodity price decreases rendered them unable to honour that obligation without cutting government expenditure, thereby reducing domestic demand and exacerbating the impact of those price decreases.

17. With respect to the current open trading system, he pointed out that, in the current circumstances, countries would probably increase their attempts to control trade through provisions available both within and outside WTO, since countries in crisis must strike a balance between their commitment to free trade and their commitment to income growth for their citizens. Moreover, open trade in a context of worldwide deflation could do little to support global demand and employment. He agreed that it was important to take advantage of multilateral institutions, since the current dynamic of the global economy would not, by itself, produce a return to the conditions of a few years earlier.

18. **Ms. Linde** (United States of America) said that her country was not in a recession. She was concerned about Mr. O'Connell's proposal that the IMF Compensatory Financing Facility should be refined to include compensation for the

cessation of commercial lending. With respect to Mr. Islam's comment that recession combined with deflation had become a possibility, the effects of recession coupled with inflation would be far worse than those of deflation. In general, much had been said about the role of the United States as the engine of growth for the world's economies. However, the United States Government had argued vigorously that countries should not rely on exports to the United States as their main source of growth. Instead, they should diversify their export markets by developing regional markets and trade among developing countries.

19. **Mr. O'Connell** said that the example of Latin America was actually encouraging to him, as the measures it had taken to emerge from the crisis of the 1980s had prepared it to weather the 1995 crisis. He therefore preferred to compare the current situation to the 1970s and 1980s rather than the 1920s and 1930s.

20. The United States was still considered the "buyer of last resort" to absorb exports from the rest of the world, yet a more balanced pattern of growth was necessary, with more activity in the economies of Western Europe and Japan. Much of the current instability in exchange rates was due to the imbalance among those three major economies.

21. Markets in South-East Asia were highly integrated, and therefore contagion had spread through that region by means of trade. It was still too early in the crisis, however, to tell whether the global trading system would be able to withstand protectionist pressures, as the South-East Asian countries had not yet increased their exports.

22. Finally, he agreed that a strong institutional structure did exist, and although everyone might not agree on the diagnosis, all parties did agree that the crisis was global. It was of critical importance, therefore, to put the institutional machinery to good use.

23. **Mr. Islam** said that the duration and depth of the crisis would depend on the policy and market response. The standard procedure was to prime the fiscal pump with money, and that was already beginning to happen. The view that the United States would enter a recession in 1999 was not his alone; Wall Street investment houses were already predicting that scenario. A major interest rate cut was also to be expected. Japan was currently in a classic liquidity rate crisis and was still experiencing deflation. In his view, conditions in 1998 were most similar to those which had prevailed in 1928, but it was unlikely that history would repeat itself exactly. The deep concern over the financial crisis was actually good news, because it was likely to spur Governments and international organizations to action.

24. **Mr. Desai** (Under-Secretary-General for Economic and Social Affairs) said, in conclusion, that the current crisis was systemic, and therefore a robust global and multilateral response was needed.

The meeting was suspended at 11.45 a.m. and resumed at 11.50 a.m.

Agenda item 91: Macroeconomic policy questions *(continued)* (A/53/60, A/53/62, A/53/69, A/53/185)

(b) Financing of development, including net transfer of resources between developing and developed countries *(continued)* (A/53/228, A/53/398)

(d) External debt crisis and development *(continued)* (A/53/373, A/53/72-S/1998/156, A/53/95-S/1998/311)

25. **Mr. Powles** (New Zealand) said that his country had a high level of trade with its neighbours in Asia, and a large proportion of its exports were commodities. As a result, it had been significantly affected by the financial crisis, but it had found that economic reforms implemented over the past decade had made its economy more resilient and able to withstand the current storm. The international community must work together towards a long-term solution to the instability in financial markets. Domestic policy reform was of course essential, but the crisis also raised systemic issues regarding the volatility of capital flows and the suitability of the current international financial architecture. A careful balance was needed in reforming the financial system to stem unwarranted panic but also to avoid the hazards of bailing out investors who had given insufficient regard to risk factors. IMF had been frequently criticized and, in retrospect, some of its policies could be questioned. However, the magnitude of the task it faced should not be underestimated. His delegation saw benefit in ensuring that IMF received the support and resources it needed to carry out its functions.

26. The involvement of development banks in providing large, quick-disbursement loans, if such lending placed at risk longer term operations, should be carefully reconsidered. Given the pressures on development bank resources, measures must be taken to ensure their financial soundness and the availability of sufficient funds for their core activities. It might be necessary for borrowers to face some increased costs, provided that the burden was shared equitably and that all donors met their replenishment obligations. The graduation policies of development institutions must also be based on analytically sound criteria, including consideration of economic and environmental vulnerability, particularly in the case of small island

developing States. His delegation also looked forward to an open and constructive dialogue on the convening of a high-level international and intergovernmental conference on development financing.

27. New Zealand recognized the strain that unsustainable levels of debt placed on the world's poorest countries. Much could be achieved if the funds currently used for debt servicing could be freed for spending on basic social services in health and education. For its part, all of New Zealand's ODA was made available in grant form. New Zealand welcomed the progress made thus far under the Heavily Indebted Poor Countries (HIPC) Debt Initiative and believed that it was important to accelerate the process. It favoured a flexible, case-by-case approach to qualification criteria and the level of debt relief to be provided.

28. In conclusion, his delegation hoped that the economic crisis would force the international community to contemplate those issues and their solutions with new clarity.

29. **Mr. Kamal** (Pakistan) said that, while the international community had achieved consensus on human-centred development, it had failed to provide commensurate financial resources to realize that objective, and in fact resources allocated to development had declined. Since the beginning of the 1990s, private financial flows had been presented as a panacea for economic development, but those flows had been concentrated in a relatively few countries. The recent crisis had revealed, however, that they were volatile and highly undependable.

30. The preoccupation with the financial crisis should not divert attention from addressing the particular case of Africa. The urgency of providing development financing to Africa was greater than ever. Africa's debt overhang was a constant drain on its meagre resources, and debt-relief initiatives had not effectively solved the debt problems of the African countries. A global comprehensive initiative would be required, and his delegation therefore fully supported the proposal of the Organization of African Unity (OAU) for an international agreement to clear the entire debt stock from the poorest countries in Africa within a reasonably short period of time.

31. On several occasions, the developing countries had proposed that a high-level international conference on the financing of development should be held, and with the adoption of General Assembly resolution 52/179, steps towards organizing that conference would begin. The ad hoc open-ended working group to prepare recommendations on the form, scope and agenda of the proposed conference should emphasize the fact that the conference should address the issues of the international monetary system, market access and development in an integrated manner, with a particular focus on Africa.

32. **Mr. Shen Guofang** (China) said that his delegation hoped that the ad hoc open-ended working group to be established under resolution 52/179 would steer the discussions on the issue of development financing in a more practical and action-oriented direction. For some time, most developing countries had not seen much improvement in the unfavourable external environment, and at the same time, the rapid pace of globalization had confronted them with new challenges. The international community must take action to inject new vitality into international economic cooperation for development, which was in the long-term interests of all. The discussions on development financing should focus on intergovernmental cooperation. Although a country's development must be achieved by relying on its own strength and resources, discussions within the United Nations forum could focus on international action that might be taken. Many developing countries simply could not meet their development needs from domestic resources.

33. The importance of private capital should be recognized, along with its limitations and potential risks. Motivated by profit, private capital flows very often bypassed the countries that needed them most. More often than not, private capital would not move to the priority areas of economic and social development in the developing countries. Its speculative and unstable nature could also trigger financial and monetary crises that could inflict heavy losses on developing countries. Therefore, world financial and monetary stability must be reinforced.

34. Although the IMF Debt Initiative was welcome, there was still far to go to resolve the external debt crisis. International organizations and creditor countries must speed up the implementation of the Initiative and should provide support to countries hit by the recent financial crisis.

35. The ad hoc open-ended working group should conduct a comprehensive review of the various channels of development financing and should focus on mobilizing political will to reverse the decline in ODA, promoting greater flows of direct foreign investment to larger numbers of developing countries, a comprehensive analysis of the operations of international capital markets, strengthening of early-warning and crisis response mechanisms, and a final solution to the debt problem of developing countries.

36. **Mr. Osio** (Nigeria) said that the current discussion on development financing was a clear indication of the leadership of the United Nations in the economic and social spheres. In the 1980s, discussion of financial and monetary

issues had moved from the United Nations to the Bretton Woods institutions, which had a great deal of high-level technical expertise; however, that expertise had not been able to determine the best way to tackle the political and social consequences of the international financial situation. The ultimate goal of the United Nations in the economic and social fields was to promote social progress and better standards of living in larger freedom. Of course, those essentials of development required enormous financial resources. In an increasingly interdependent world, financing of development required partnership and pooling of resources so that they could be transferred from points of overflow to points of need. Development required investment in infrastructure, communication, education and health as well as sustainable economic growth. The steady decline since 1992 of ODA from the industrialized countries must be reversed. Whereas the Netherlands and the Nordic countries had met their obligations, the members of the Organisation for Economic Cooperation and Development currently averaged less than a third of the agreed target of 0.7 per cent of GNP.

37. The surge in resource flows to the developing countries during the 1990s had been made up almost entirely of private capital flows which had gone to a relatively small number of countries. As the Asian financial crisis had shown, not all developing countries that received huge private capital flows had been wise to count on them to fund their development plans. For Africa, where the vulnerable economies had not yet been exposed to economic contagion, a global partnership in policy design and execution was required to establish an international financial architecture under which all economies – developed and developing – would be better protected in concerted action with the multilateral financial institutions.

38. The external debt crisis, which was most acute in the least developed countries, most of which were in Africa, held the development efforts of those countries hostage because of huge debt-servicing costs and kept future generations of their citizens in perpetual debt bondage. The vicious cycle of indebtedness had contributed to the inability of most developing countries to attempt further implementation of structural adjustment programmes for fear of social unrest. In conclusion, he called for speedier implementation of the IMF Debt Initiative and for Governments and leaders to show the political will to facilitate development financing and resolve the external debt crisis.

39. **Mr. Beti** (Observer for Switzerland) said that Switzerland fully shared the concerns expressed by the Secretary-General in his report on the external debt crisis and development (A/53/373). Recent developments had highlighted the need for an effective framework of action for tackling the debt crisis. To date, Switzerland had offered debt relief to approximately 20 countries under a special bilateral programme.

40. Substantial progress had been made in the implementation of the Heavily Indebted Poor Countries Debt Initiative, yet Switzerland was concerned by certain funding issues which undermined the functioning of the Debt Initiative. Firstly, insufficient funding would impose counterproductive financial constraints on the Debt Initiative. He urged donor countries which had not yet done so, to honour their commitment to the Heavily Indebted Poor Countries Trust Fund. Secondly, the process of qualification for debt relief was indeed quite slow, and Switzerland had spoken in favour of a two-year extension of the application period. Shorter periods should form the exception rather than the rule, applying only to those countries whose performance levels in the area of reform were deemed satisfactory.

41. Thirdly, it was essential that debtor countries themselves played a stronger role in the process of debt strategy analysis. To that end, his country, together with Austria, Denmark, Sweden and the United Kingdom, had launched a capacity-building and debt management programme which had been particularly active in Africa and Latin America in 1998.

42. He stressed that the Debt Initiative was an exceptional and temporary measure aimed at strengthening the implementation of viable and lasting economic policies with a view to poverty elimination. Switzerland was committed to that process, especially with respect to heavily indebted countries that were prepared to adopt fundamental economic and structural reforms to resolve the deadlock.

43. **Mr. Gómez** (Nicaragua) said that his country's inability to service its debt without jeopardizing social and economic growth had proved that the current financing of the economy did not meet the demands for growth and competitiveness. After a brief outline of the domestic debt crisis, he noted that his Government had turned its focus to the implementation of an IMF agreement based on fiscal corrections and structural reforms. Furthermore, Nicaragua had rescheduled its debt servicing with the members of the Paris Club over two years.

44. Nicaragua needed support in order to fulfil its obligations, satisfy social needs and update and streamline its productive machinery to sustainably develop its competitiveness and integration into international markets. Although Nicaragua's debt burden had been reduced to just over one half of the 1990 figure, the economy still suffered

from short-term liquidity problems and medium- and long-term insolvency. Structural adjustment programmes and domestic austerity policies had imposed too high a social cost on the population. Current structural adjustment programmes, while necessary, were inadequate to achieve economic growth at sustainable levels in order to alleviate poverty and curb the erosion of national resources.

45. External debt servicing represented 40 per cent of the value of exports, and poverty levels were at an unprecedented high, while per capita consumption and investment levels were in decline. Nicaragua and other heavily indebted developing countries had entered a vicious cycle of economic disintegration, and it would take more than a generation to return to the standard of living it had enjoyed at the end of the 1970s.

46. **Mr. Rahmtalla** (Sudan) said that Africa was still suffering from a heavy debt burden, which was growing at an alarming rate: in 1995 it had reached US$ 322 billion, or 65.3 per cent of the value of African exports. Falls in export revenue made it difficult to repay loans and, in consequence, arrears built up and debt-servicing costs rose. He feared that the current crisis in financial markets would reduce the amount of money available for ODA to the least developed countries, of which 33 were in Africa.

47. Despite the political risks involved and the social suffering entailed, and regardless of the harsh economic sanctions imposed upon it, the Sudan was making every effort to carry out a programme of economic reform. Appreciable results had been obtained, demonstrating his country's sincere desire to implement such reform, repay its debts and normalize its relations with the international financial institutions and the donor community. The IMF Executive Board Assessment of the Sudanese economy published in April 1998 recognized that sincerity, saying that real economic growth, inflation, fiscal and external sector performance in 1997 had been in line with, or exceeded, initial expectations, and that the 1998 programme marked a clear departure from past reform attempts.

48. His delegation shared the concern expressed by the Secretary-General in his report (A/53/373) with regard to the slow implementation of the Heavily Indebted Poor Countries (HIPC) Debt Initiative, and agreed that the complex process should be reviewed. In order to accelerate implementation of the initiative, all the suggestions put forward in paragraph 67 of the Secretary-General's report should be adopted.

49. He hoped that a comprehensive and unified strategy would be adopted in order to resolve the debt problem, thereby permitting developing countries to participate in both development and the international community.

50. **Mr. Todjinou** (Benin) said that although domestic savings, direct foreign investment, and ODA were the major sources of development finance, it was sometimes difficult to mobilize domestic savings for investment. Increased private capital flows, coupled with technology transfer, could stimulate sustained economic growth which would, in turn, encourage such savings.

51. In 1998 many African countries needed additional financial resources to counteract the negative effects of the financial crisis in Asia. As shown in the Secretary-General's report, net direct investment flows to Africa were comparatively low compared to similar flows to Asia, Latin America and the Caribbean over the previous decade. Africa had been marginalized with respect to foreign direct investment. It was therefore crucial for developing countries, especially the least developed, to attract capital and investments. In so doing, high priority should be placed on the promotion of democracy, transparency and good governance, the fight against corruption, the establishment of infrastructure and a proper legal framework, and the maintenance of peace and the stability of national institutions.

52. He wondered how development goals could be reconciled with the profit motive, and what measures could be taken to prevent foreign investment from further entrenching poor countries in the mire of debt. In view of the instability of international financial flows, his delegation believed that the proposal made by the Commission for Development Planning concerning the establishment of an international mechanism for the monitoring of private capital flows and investments deserved thorough review at the appropriate level.

53. The States members of the Organisation for Economic Cooperation and Development (OECD) were currently the main ODA contributors: Denmark, Norway, the Netherlands and Sweden had been the only donors to reach the United Nations target in 1997. His delegation wished to take the opportunity to invite other developed countries to fully honour their commitment to increase the volume of resources available for development finance.

54. The basic resources of the United Nations Development Programme (UNDP) should be substantially bolstered in order to allow the Programme to carry out its principal task of financing the operations and coordination of development activities within the United Nations.

55. His delegation supported the recommendation made in the Agenda for Development for closer collaboration between the United Nations and multilateral development institutions. Moreover, thorough preparations should be

made for the high-level, intergovernmental consideration of the topic of financing for development. Benin supported the in-depth examination to be conducted by the ad hoc open-ended working group, pursuant to General Assembly resolution 52/179.

56. Some measures had been adopted to alleviate the developing countries' debt burden, but those measures had been limited to certain privileged countries. Much remained to be done for poor countries that were striving, in good faith, to honour their debt service commitments in spite of the enormous difficulties they faced. Benin was confident that development objectives could be reached if the Governments of the region showed greater solidarity and political will.

57. **Mr. Guglielmelli** (Venezuela) said that the ad hoc open-ended working group to be established during the current session of the General Assembly should provide the parameters for consideration of one of the major items on the international agenda. A solid international economic and financial basis which generated adequate and sustainable assistance was a prerequisite for the achievement of appropriate development assistance.

58. The consideration of financing for development must have a broad agenda encompassing the most relevant aspects of international cooperation for development such as ODA, private capital flows, the reform of the international financial and monetary system and innovative sources of financing for development.

59. Development finance was an issue of key interest to countries such as Venezuela, particularly with respect to the successful coordination of economic and social strategies, as well as to strategies related to access to stable and productive sources of financing that allowed for democratic governance and the viability of development projects. His delegation believed that it was necessary to consolidate, within the framework of multilateral decision-making institutions, a position that reflected the region's current role and its potential in the international economy. It was necessary to launch and maintain initiatives to increase ODA, ensure the replacement of resources for development financing institutions and the IMF Debt Initiative. The United Nations must become the highest political forum for the discussion and consideration of important issues affecting the international economy such as development finance, as well as the redesign of the structure of international finance.

60. The recent financial crisis had brought far-reaching consequences which affected both the developed and developing countries. A common denominator of financial crises was its effect on economic growth and development. Venezuela therefore called on the international financial institutions to strengthen their role of monitoring the stability of international monetary and financial systems through the reinforcement of early-warning mechanisms as well as through their capacity to assist countries affected by financial upheaval.

61. The manifestations of globalization had demonstrated the imperfections of the international financial and monetary system, which had been characterized by the impact of powerful financial groups and by the presence of actors such as risk assessment agencies. Venezuela was convinced that the discussion of international financial and monetary issues must have a permanent place on the agenda of the United Nations, thereby promoting the exchange of ideas between the United Nations and the Bretton Woods institutions.

62. Venezuela had been particularly affected by the decline in commodity prices. Given the large share of tax revenues provided by the oil industry, the Government of Venezuela had found it necessary to adopt and implement a series of drastic monetary and fiscal measures aimed at controlling expenses and balancing monetary and fiscal accounts. Venezuela was also greatly concerned by the heavy external debt burden on developing countries, as well as by its high service cost. It was high time to explore new and flexible modalities of payment to reduce that burden. Furthermore, new formulas should be explored that would help to soften the conditions imposed on debtor countries to live up to their commitments. It was necessary to create alternatives that did not affect national programmes, but allowed for economic growth and social development.

The meeting rose at 1 p.m.